

Programs for the Needs of Young, Beginning, and Small Farmers and Ranchers
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Daryl Oldvader, CEO
Farm Credit Services of Missouri

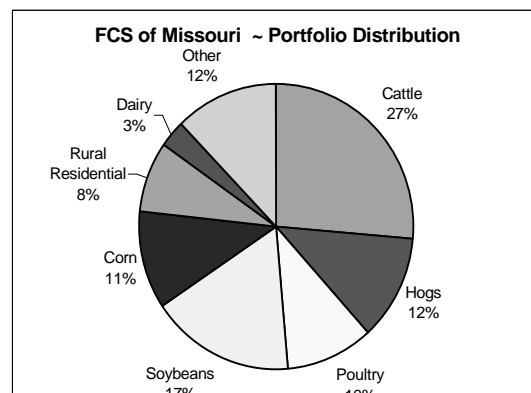
Good morning.

My name is Daryl Oldvader. I am the CEO of Farm Credit Services of Missouri. I appreciate the opportunity to testify in response to the Agency's request for ways to enhance the Farm Credit System's service to young, beginning, and small farmers (YBS). All of us in agriculture should be focused on these critical market segments. According to the agricultural census of 1997, when compared to the same census for 1964, our country lost over 40% of our farm producers during that 33-year period. Assisting those who want to enter into production agriculture will be critical not only to those of us serving agriculture, but to rural America as well.

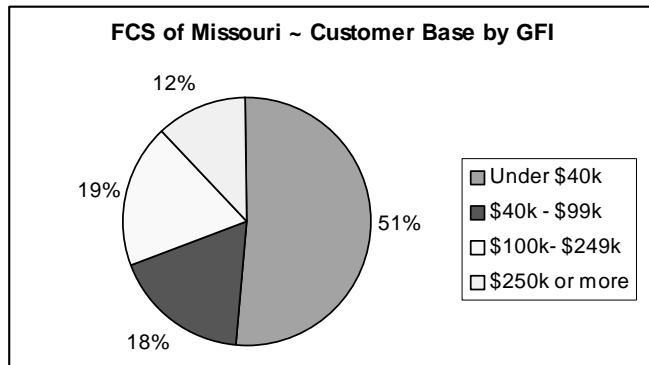
US Farmer Population

	1997 Census of Agriculture	Percent by Number	Percent by Production
Part-time	1,407,711	73.7	6.8
Traditional	347,577	18.2	21.1
Commercial	130,069	6.8	30.4
Large Commercial	19,069	1.0	14.2
Small Ultra	4,066	0.2	7.0
Ultra	2,799	0.1	20.5
1997 Census of Agriculture	1.9 million		\$196.9 billion
1964 Census of Agriculture	3.2 million		\$35.3 billion

Missouri is the second leading state in the nation in the number of farms with 108,000. It is diversified in livestock, crop, poultry, and dairy production. The average size Missouri farm is only 277 acres and 96% of the producers in our state would be classified as small farmers based on the definition provided by the National Commission on Small Farms (i.e., <\$250,000 GFI).



Farm Credit Services of Missouri, like most Farm Credit Associations, is a mirror of the marketplace that we serve. Our loan portfolio contains over 20,000 loans to approximately 12,000 traditional farmers, part-time farmers, and rural homeowners. With a total loan portfolio of \$1.2 billion, our average size loan is only \$57,000. Also, similar to the state demographics, 88% of our loans are to producers classified as small farmers. To augment their farm incomes, the vast majority of these producers have employment off the farm. This evolution is rapidly changing the paradigm of agriculture in rural America.



As I noted earlier, the young, beginning, small farmer programs are instrumental in ensuring the emphasis of agriculture in our economy. Farm Credit System institutions are doing an excellent job meeting the credit needs of this nation's young, beginning, and small farmers. During the past three years, the Farm Credit System made over 76,000 loans to young farmers for a total of about \$6.9 billion; over 95,000 loans to beginning farmers for a total of about \$9.8 billion; and over 270,000 loans to small farmers for a total exceeding \$16 billion. That does not include the countless dollars and staff hours expended in support of local events and activities for these market segments.

At Farm Credit Services of Missouri, we are proud of our initiatives to support the young, beginning, and small farmer segments. Currently, approximately 23% of our customer base or 2,611 producers are identified as young farmers; over 30% or 3,546 producers are identified as beginning farmers; and over 73% or almost 8,500 producers are identified as small farmers. To put these numbers in a different perspective, from our approximate customer base of 12,000 borrowers, almost 84% of that total or 9,700 producers would be classified as either young, beginning, or small. I am proud of the job that our staff is doing to provide credit to these respective groups while serving the financial needs of our marketplace.

FCS of Missouri ~ YBS Program

	Number of Customers	%	Loan Volume	%
Young	2,611	23%	\$180 mil	15%
Beginning	3,546	31%	\$264 mil	24%
Small	8,500	73%	\$601 mil	50%

To assist in our ability to serve the young, beginning farmers, our Association works closely with state and federal agencies. With this type of cooperation, we are able to make maximum utilization of interest rate benefits for our customers while managing the risk parameters of our loan portfolio. Farm Credit Services of Missouri is the single largest user of the Missouri First Linked Deposit Program which was designed to assist Missouri lenders in financing agriculture. We currently have over 400 loans for approximately \$32 million in this statewide program. Additionally, our Association utilizes federal programs administered by the Farm Service Agency to coordinate with our local lending activities. Over 10% of our approximate \$740 million young, beginning, and small loan portfolio volume is guaranteed through federal and state agencies, such as the Farm Service Agency.

A large part of our success as an organization related to young, beginning, and small farmer financing can be attributed to the high profile that we maintain by supporting the activities of these various groups. This year alone, Farm Credit Services of Missouri will spend over a quarter of a million dollars sponsoring State Young Farmer, FFA, and 4-H activities. We also work with other state agricultural organizations, such as Missouri Farm Bureau, MFA, and the major commodity groups, in sponsoring educational and risk management seminars for our young and beginning producers. Additionally, we work with a number of Missouri colleges providing training resources and materials for their educational programs.

While we are proud of our accomplishments, we know that we can do even more to assist our young, beginning, and small farmers in Missouri. Our concern is that the attention brought to the Farm Credit Administration's oversight of the System's Special Mission to serve these segments will result in unneeded regulatory burdens being placed on System institutions. This comes at a time when our efforts should be focused on continued quality service to these groups versus additional costly reporting.

The GAO Report entitled *The Farm Credit Administration: Oversight of Special Mission to Serve Young, Beginning, and Small Farmers Needs to Be Improved*, dated March 2002, noted three areas that the Agency should review related to the effectiveness of their oversight responsibilities. These areas include: (1) better definition and clarity as to what constitutes an acceptable YBS program; (2) improvement in the YBS examination process; and (3) disclosure of YBS compliance examinations. Let me briefly address each of these areas.

First, as to the definition and clarity of the YBS program, I would offer that FCA Policy Statement 75, dated December 10, 1998, with the supporting guidelines detailed in FCA Bookletter 040, dated December 11, 1998, provides detailed clarity regarding what constitutes an acceptable YBS program. The booklet advises System institutions to have clearly stated policies for serving YBS, which should include among other things:

1. Measurable goals such as the dollar volume of aggregate YBS lending, number of new and existing YBS farmers served, volume through coordination efforts, number and frequency of outreach activities, and other YBS goals compatible with the institution's risk-bearing capacity;
2. Specifically designed credit programs and services for YBS borrowers, including loan underwriting standards and use of guarantees;
3. An outline of program authorities and delegations; and
4. Detailed outreach opportunities from the institution or other sources.

Additionally, in April 1999, FCA's Office of Examination issued an informational memorandum informing System institutions that they should analyze the demographics of the territory they serve to determine the potential YBS market.

These guidelines clearly and succinctly outline the design for an acceptable program to effectively implement the YBS Special Mission. To evaluate effectiveness, the December 11, 1998, Bookletter notes that the FCA examiners will assess System institutions' analyses of the demographics of YBS as well as program results reflected in the loan portfolio. Furthermore, the booklet states, "The adequacy and accuracy of compliance with FCA reporting instructions will be included in the overall assessment." Thus, there are adequate regulations currently in place to fulfill the System's mission to YBS.

The second area of concern in the GAO report addressed weaknesses in FCA's 2001 examinations that limited the Agency's ability to effectively oversee YBS mission compliance. As the report noted, "Generally, these weaknesses were incomplete execution of examination procedures and incomplete documentation to support examination conclusions." This is a critical conclusion of the report. The integrity of the System's efforts to meet our YBS mission must be substantiated by our regulator with accurate and thorough reporting. If this cannot be accomplished, then it is difficult for those viewing the System from the outside, such as GAO, to accurately assess our effectiveness in this area. The report further notes, "If properly executed, the examination process set up by FCA, including use of the leadsheet, should provide FCA with useful information on a System institution's service to YBS." Thus, there are adequate processes currently in place to fulfill the System's mission to YBS.

The third area of concern addressed in the March 2001 GAO report related to the need to disclose results of individual YBS compliance examinations. This issue has to be thoroughly evaluated to ensure that the examination process is accurate, complete, and consistent before applying public comparisons. Additionally, it should supply relative value to the marketplace in order to support additional time and cost allocations from the institution or its regulator.

In closing, I would offer that the System is indeed fulfilling its mission to serve young, beginning, and small farmer needs. As I noted earlier, during the last three years the Farm Credit System has made over 444,000 loans worth approximately \$33 billion to young, beginning, and small farmers. That does not include the countless dollars and staff hours that Farm Credit System institutions expend supporting local events and activities related to these critical market segments. The current YBS regulations with supporting policies and guidance provide clarity regarding what constitutes an acceptable YBS program. We need to reinforce that clarity as well as mission results with a complete and thorough examination process by our regulator. We do not need more regulations. You see, the System has never lost its focus on young, beginning, small farmers. We know how critical this group is to rural America and the perpetuation of production agriculture in this country. We just need to do a better job of documenting our successes to others.

Thank you.